



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 9, 2008

Now What?

Summary and Recommendation

We continue to like the same stocks after suspending buy recommendations on Friday as the recent adverse stock price trend may be suggesting more patience (see *Meter Reader Flash*, September 5, 2008). For deciding what to do with stocks now owned, we recommend overweighting natural gas, keeping a global spread of companies, large and small, and participating in income stocks. Judge the size of holdings by Enterprise Value rather than Market Cap and keep the McDep Ratio in mind. To help with the portfolio analysis, we create a new table with all covered stocks rearranged geographically (see table [McDep Energy Portfolio](#)). The former recommended geographic weightings, still reasonable while recast in a new look, underweight U.S. Integrated and Europe, equal weight Brazil, Russia and China and overweight U.S. Independent and Canada. We discuss below examples of current interpretations for some specific stocks. Finally, taxable investors who may have tax losses from recent purchases might realize them while preserving investment exposure by swapping shares in similar companies.

Small Premium in Marathon for Restructuring

Down in price like most stocks, **Marathon Oil (MRO)** might warrant investor reconsideration in our new U.S. Integrated group. Already a small company relative to mega caps in the four-company peer group, Marathon may restructure itself voluntarily into two smaller pieces as recently announced. Smaller pieces are easier to swallow in an acquisition. At a McDep Ratio of 0.70, Marathon stock is ten percent more expensive than the median, but still low in terms of resource and business value as we measure it.

Shift Emphasis from BP to StatoilHydro

A recent sharp decline in price for **StatoilHydro (STO)** may be an opportunity for switching some **BP plc (BP)** into the Norwegian company for a modest valuation advantage and increased emphasis on Rest of World Natural Gas that we like.

Petrobras More Tempting

We believe the equal weighting at 18% is reasonable in the Brazil/China/Russia geographic sector at the same time some investors may be more concerned about political risk in Russia. In that case, some Russian emphasis might be shifted to Brazil. **Petrobras (PBR)** with its large discoveries offshore Brazil is now available at a lower stock price.

Whopping Weighting in U.S. Independents

Aggregating our formerly recommended Income and Small Cap Independents with Large Cap Independents creates a new U.S. Independent sector with a 41% weighting compared to 11% for



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio
September 9, 2008

the current market weighting by Enterprise Value compared to all the stocks we cover. Here is where we get the building blocks for overweighting natural gas with eight stocks having more than 50% concentration on the underpriced fuel.

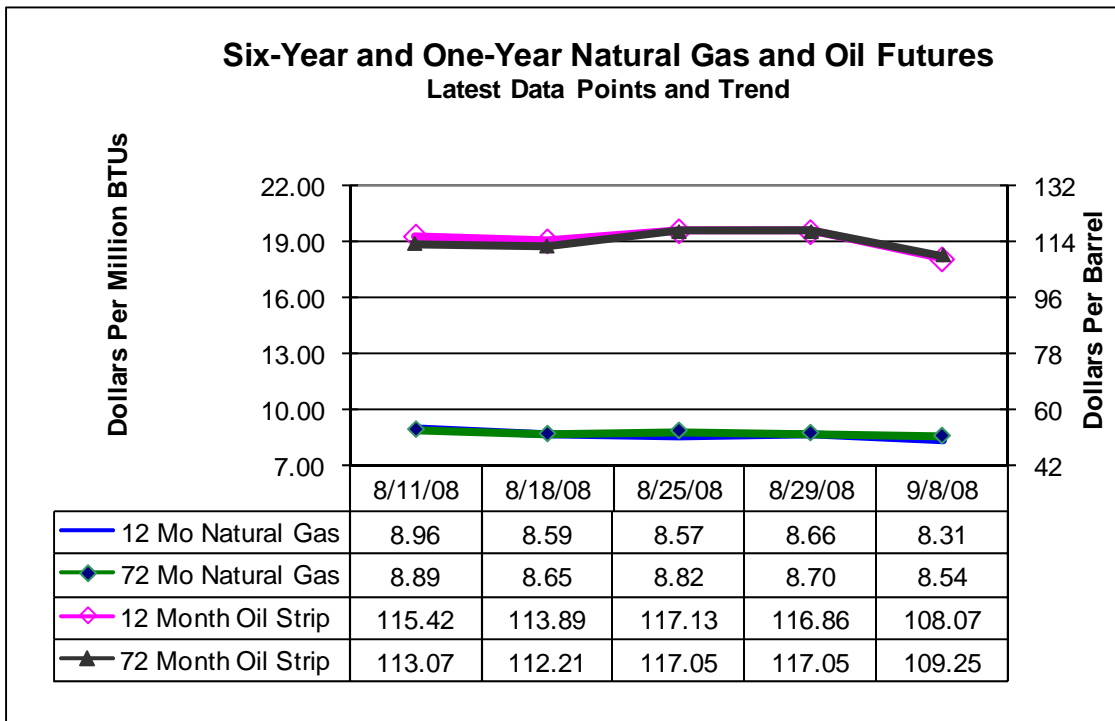
Overweight Canada

Past favorites **Canadian Oil Sands Trust (COSWF)** and **Encana (ECA)** should continue to appeal to patient energy investors. With the consolidation that has taken place in the income trust sector there is less differentiation now among **Penn West Energy Trust (PWE)**, **Enerplus (ERF)** and **Pengrowth (PGH)**.

Six-Year Oil Futures at 40-Week Average

The futures market quote for oil for delivery over the next six years of \$109 a barrel now matches the 40-week average at the intersection between a rising trend and a declining trend by that measure. The other three six-year and one-year measures have turned to a declining trend in recent weeks (see chart below and on page 7).

Kurt H. Wulff, CFA





Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 9, 2008

Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/		8-Sep	Shares	Cap	Value	Present	
	Rating		2008	(mm)	(US\$m)	(US\$/sh)	Value	
							Ratio	
Mega Cap								
Exxon Mobil Corporation	XOM		76.77	5,261	404,000	118.00	0.05	0.67
Chevron Corporation	CVX		81.05	2,206	179,000	135.00	0.09	0.63
Petrobras	PBR		43.19	4,387	189,470	75.00	0.10	0.62
BP plc	BP		54.39	3,137	171,000	104.00	0.17	0.61
ConocoPhillips	COP		74.69	1,555	116,000	150.00	0.17	0.58
Royal Dutch Shell plc	RDS-A		62.05	3,095	192,000	120.00	0.11	0.57
Total S.A.	TOT		64.12	2,253	145,000	125.00	0.09	0.56
Gazprom (50%)	OGZPY		35.04	2,865	100,400	88.00	0.09	0.45
<i>Total or Median</i>					1,497,000		0.09	0.59
Producer/Refiners - Large Cap								
BG Group plc	BRGXF		19.22	3,384	65,050	28.00	0.07	0.71
Marathon Oil Corporation	MRO		43.90	714	31,340	70.00	0.21	0.70
Imperial Oil Limited (30%)	IMO		43.14	269	11,580	65.00	0.05	0.68
Suncor Energy	SU		46.42	953	44,240	75.00	0.08	0.65
PetroChina Company Ltd (14%)	PTR		119.68	257	30,790	220.00	0.04	0.56
StatoilHydro ASA (29%)	STO		25.45	928	23,620	52.00	0.12	0.55
Petro-Canada	PCZ		38.41	484	18,590	90.00	0.11	0.49
Lukoil Oil Company	LUKOY		68.50	839	58,000	170.00	0.03	0.42
<i>Total or Median</i>					283,000		0.08	0.61
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO		133.14	152	20,270	180.00	-	0.74
Encana Corporation	ECA		67.02	751	50,300	100.00	0.19	0.73
Anadarko Petroleum Corp.	APC		56.97	471	26,800	100.00	0.27	0.69
EOG Resources	EOG		92.29	251	23,200	140.00	0.07	0.68
Canadian Natural Resources	CNQ		75.55	541	40,900	124.00	0.18	0.68
Chesapeake Energy Corporation	CHK		42.72	550	23,500	80.00	0.26	0.66
XTO Energy Inc.	XTO		47.79	580	27,720	88.00	0.19	0.63
Occidental Petroleum Corp.	OXY		71.93	826	59,400	120.00	0.06	0.62
Devon Energy Corporation	DVN		95.04	450	42,800	170.00	0.10	0.60
<i>Total or Median</i>					315,000		0.18	0.68
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC		47.41	52	2,480	75.00	0.28	0.73
Berry Petroleum Company	BRY		36.75	46	1,680	65.00	0.37	0.73
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.73	117	1,140	14.00	0.10	0.73
Energy Partners Ltd.	EPL		9.84	32	320	30.00	0.39	0.59
Cimarex Energy Company	XEC		48.23	86	4,130	100.00	0.06	0.52
<i>Total or Median</i>					9,800		0.28	0.73
Income								
San Juan Basin Royalty Trust	SJT		38.92	47	1,810	48.00	-	0.81
Pengrowth Energy Trust	PGH		16.53	248	4,100	24.00	0.26	0.77
Canadian Oil Sands Trust	COSWF		42.02	479	20,150	57.00	0.04	0.75
Penn West Energy Trust	PWE		26.09	380	9,910	40.00	0.26	0.74
Enerplus Resources Fund	ERF		39.60	165	6,510	63.00	0.13	0.68
Hugoton Royalty Trust	HGT		28.36	40	1,130	42.00	-	0.67
<i>Total or Median</i>					43,600		0.08	0.74
Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).								
Debt = Present Value times Debt/Present Value								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.								



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 9, 2008

Oil and Gas Producers - Rank by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda NTM	EV/ Ebitda NTM	Divd or Distrib P/E NTM (%)
	Symbol/ Rating		8-Sep 2008	Prod NTM	Ebitda NTM	Ebitda NTM	P/E NTM
Mega Cap							
Petrobras	PBR		43.19	10.4	9.7	6.0	11 2.0
Gazprom (50%)	OGZPY	B	35.04	24.6	11.6	5.2	7 1.2
Exxon Mobil Corporation	XOM	B	76.77	12.2	7.6	5.1	9 2.1
Chevron Corporation	CVX	B	81.05	9.5	7.4	4.7	8 3.2
BP plc	BP	B	54.39	10.0	7.3	4.4	6 6.2
ConocoPhillips	COP	B	74.69	10.9	7.5	4.3	7 2.5
Total S.A.	TOT	B	64.12	9.1	7.3	4.0	7 4.6
Royal Dutch Shell plc	RDS-A	B	62.05	7.6	6.7	3.8	6 5.2
	<i>Median</i>			10.2	7.4	4.5	7 2.9
Producer/Refiners - Large Cap							
BG Group plc	BRGXF		19.22	7.5	9.9	7.0	13 1.0
Suncor Energy	SU	B	46.42	21.7	10.2	6.6	11 0.4
Imperial Oil Limited (30%)	IMO	B	43.14	14.2	9.5	6.5	10 0.8
Marathon Oil Corporation	MRO	H	43.90	8.8	7.3	5.2	10 2.2
PetroChina Company Ltd (14%)	PTR	B	119.68	14.3	8.2	4.6	10 3.5
StatoilHydro ASA (29%)	STO	B	25.45	7.9	7.3	4.0	7 5.9
Petro-Canada	PCZ	B	38.41	7.2	6.5	3.2	6 2.0
Lukoil Oil Company	LUKOY	B	68.50	18.6	7.1	3.0	5 2.2
	<i>Median</i>			11.5	7.8	4.9	10 2.1
Independent Natural Gas and Oil - Large Cap							
Chesapeake Energy Corporation	CHK		42.72	11.1	11.7	7.7	14 0.7
Canadian Natural Resources	CNQ	B	75.55	9.0	10.4	7.1	15 0.5
XTO Energy Inc.	XTO	B	47.79	11.4	10.5	6.6	14 1.0
EOG Resources	EOG	B	92.29	9.8	9.1	6.2	14 0.6
Encana Corporation	ECA	B	67.02	8.6	8.1	5.9	20 2.4
Anadarko Petroleum Corp.	APC	B	56.97	9.7	8.3	5.7	14 1.3
Devon Energy Corporation	DVN	B	95.04	9.3	9.0	5.5	12 0.7
CNOOC Limited (34%)	CEO	H	133.14	9.3	6.8	5.0	9 3.6
Occidental Petroleum Corp.	OXY	B	71.93	11.8	7.9	4.9	9 1.8
	<i>Median</i>			9.7	9.0	5.9	14 1.0
Independent Natural Gas and Oil - Small Cap							
Birchcliff Energy Ltd. (US\$)	BIR.TO		9.73	7.1	13.0	9.4	222 -
Encore Acquisition Company	EAC	B	47.41	13.9	8.5	6.2	12 -
Berry Petroleum Company	BRY	B	36.75	9.7	8.3	6.1	13 0.8
Cimarex Energy Company	XEC	B	48.23	7.4	6.8	3.5	8 0.3
Energy Partners Ltd.	EPL		9.84	7.2	5.7	3.4	-
	<i>Median</i>			7.4	8.3	6.1	13 -
Income							
San Juan Basin Royalty Trust	SJT	B	38.92	10.5	13.6	11.0	13 7.4
Hugoton Royalty Trust	HGT	B	28.36	13.1	12.2	8.2	12 8.6
Canadian Oil Sands Trust	COSWF	B	42.02	21.3	10.4	7.8	9 11.9
Enerplus Resources Fund	ERF		39.60	9.6	8.5	5.7	18 13.4
Pengrowth Energy Trust	PGH		16.53	9.1	7.3	5.6	47 15.3
Penn West Energy Trust	PWE	B	26.09	7.5	7.3	5.4	12 14.7
	<i>Median</i>			10.1	9.4	6.8	13 12.6
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2009; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses							



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio
September 9, 2008

Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
2-Sep	LUKOY	Lukoil Oil Company	Domestic Demand Up, Exports Down
27-Aug	PTR	PetroChina Company Limited	Sacrifice Acknowledged
27-Aug	CEO	CNOOC Ltd	Strong Operating and Financial Results
22-Aug	HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
15-Aug	* SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income (Income Weekly)
8-Aug	* PWE	Penn West Energy Trust	Distribution Yield 13% (Income Weekly)
7-Aug	* CNQ	Canadian Natural Resources	Horizon Slippage
6-Aug	* EAC	Encore Acquisition Company	Sale Called Off
6-Aug	* DVN	Devon Energy Corporation	John W. Nichols, 1914-2008
5-Aug	* XEC	Cimarex Energy Company	Ten Percent a Year Volume Growth
5-Aug	* APC	Anadarko Petroleum Corporation	Takeover Climate
4-Aug	* PTR	PetroChina Company Limited	Price Controls and Punitive Taxes
4-Aug	* CEO	CNOOC Ltd	Punitive Taxes and Price Controls
1-Aug	* CVX	Chevron Corporation	Income Model
1-Aug	* TOT	Total S.A.	Oil Sands Strategy
1-Aug	* STO	StatoilHydro ASA	High-Quality Offshore Producer
31-Jul	* IMO	Imperial Oil Limited	Resources Concentrated on Fewer Shares
31-Jul	* MRO	Marathon Oil Corporation	May Form Two Independent Companies
31-Jul	* XOM	Exxon Mobil Corporation	Income Model
31-Jul	* RDSA	Royal Dutch Shell plc	Rebuilding North American Natural Gas
30-Jul	* EOG	EOG Resources Inc.	Stellar Record Marred by Hedging
29-Jul	* COSWF	Canadian Oil Sands Trust	Distribution Increased 25%
29-Jul	* BP	BP p.l.c.	Control Dispute in Russia
25-Jul	* BRY	Berry Petroleum	A Bit of Haynesville Glamour
24-Jul	* ECA	EnCana Corporation	Two Growth Companies in One
24-Jul	* OXY	Occidental Petroleum Corporation	Largest Oil Producer in Texas
24-Jul	* SU	Suncor Energy	Operations Challenge
24-Jul	* PCZ	Petro-Canada	Construction Challenge
23-Jul	* COP	ConocoPhillips	Income Model
22-Jul	* XTO	XTO Energy Inc.	Stock Price Momentum Changes
1-Jul	* OGZPY	Gazprom	Cheap Natural Gas (Meter Reader)
22-May	* PBR	Petrobras	Raise Net Present Value to \$75 a Share

Meter Reader

9-Sep		Weekly	
5-Sep		Flash	Suspend Buy Recommendations
2-Sep		Weekly	Obama for Natural Gas
26-Aug		Weekly	Russian Rebalance
19-Aug	*	Weekly	Five Year of Oil Price in Stock Price

Oil and Gas Income Stocks

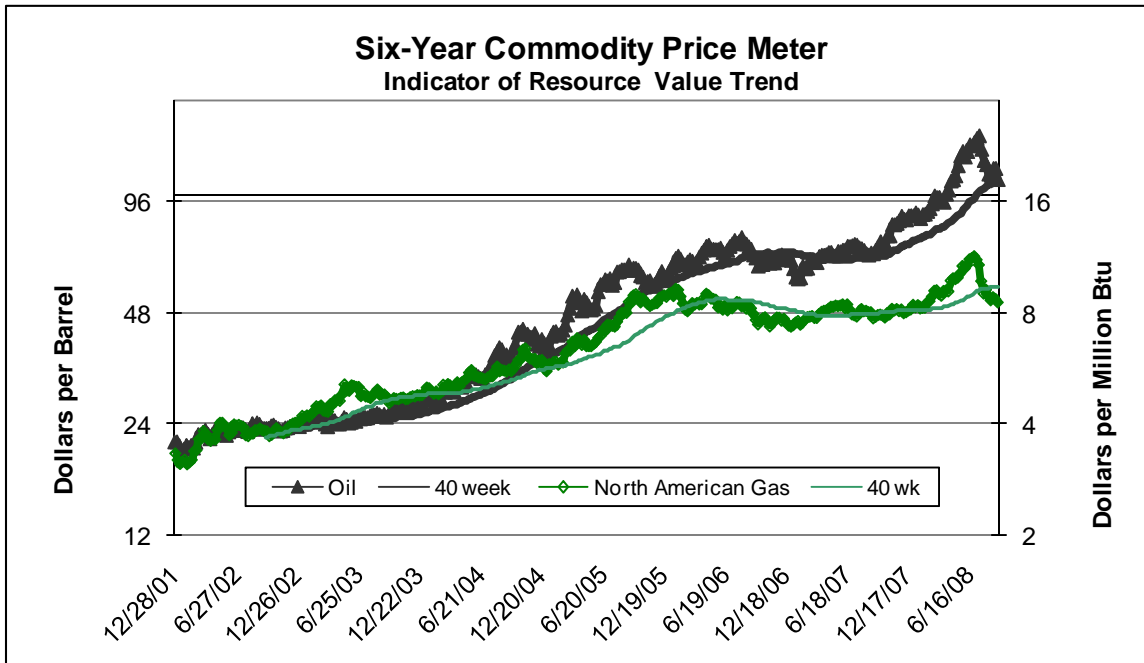
5-Sep		Weekly	Long-Term Oil Price in Uptrend
29-Aug		Weekly	Opportunity in Long-Term Natural Gas Futures
22-Aug	HGT	Hugoton Royalty Trust	Long-Term Natural Gas Income
15-Aug	* SJT	San Juan Basin Royalty Trust	Long-Term Natural Gas Income

* Archived on www.mcdep.com



Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio
September 9, 2008



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.